

Abstract

A first trust sells a credit derivative to a second trust, and in this way provides for funding of the second trust and thus provides bankruptcy protection to the second trust. The first trust sells notes linked to the credit of a sponsor. With the proceeds the first trust purchases bonds with very little risk, such as US treasury bonds. At the end of a specified period, such as five years, and in the absence of a bankruptcy of the sponsor, the first trust liquidates the bonds and redeems the notes. In the event of a bankruptcy of the sponsor, the bonds are liquidated and a pre-determined portion, such as two-thirds, of the proceeds are used to redeem the notes, while the remainder of the proceeds are transferred to a second trust pursuant to the credit derivative. The second trust funds indemnification and defense-like protection for the directors and officers of the sponsor. In the event that proceeds remain after claims are processed, the remainder is donated to a charity.